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Integrating corporate social responsibilities in business models that raising the living standards of the poor

Integracja CSR w modelach biznesowych umożliwiająca wzrost standardów życia

Abstract: *What is a business model? Even though there are numerous definitions available in the literature, none of them provide a precise explanation of business model concept. The reason for this phenomenon is explained by Amit, Zott and Massa (2010) as follows, "business model is often studied without explicitly defining the concept. Of the 103 business model publications reviews 37% do not define the concept at all, taking its meaning more or less for granted. 44% explicitly define the concept of business model, e.g. enumerating its main components. The remaining publications (19%) define the concept. Moreover, existing definitions only partially overlap, giving rise to a multitude of possible interpretations..." (p.6). Our research paper examines the business model terminology through four main lenses. First we focus on the differences in constructs of business model and their definition as well as their place and role they play to in competitive strategy to outperform competitors. Second, we provide a theoretical foundation for the business model using the corporate social responsibilities (CSR) which can be embedded as important element of customer value proposition (CVP) or even as a driver that shape company ecosystem. Third, we explore how business models can be structured and executed to generate the necessary profits for companies while at the same time integrating and serving the poorest and their unique needs. Fourth, we outline an implication for further research based on our analysis and findings.*

Keywords: business model, social responsibility and energy efficiency.

Introduction

The *aim* of this paper is to explore present situation of energy sector in Latvia and to suggest the new business model for companies working in extremely poor regions pursuing tandem of CSR that serve the poorest and their unique needs as well as are able to achieve multiple strategic objectives.

After performing the analysis of subject theme literature, including case studies, there has been found absence of a new solutions concerning the business models in the aspect of social responsibility. Most of the models are focused on profit maximisation. The situation in the business world is rapidly changing. There is increasing pressure on companies to become more socially oriented. Media, NGO, government are among those who put under pressure the companies as external factor furthermore internal pressure is founded by company employees. Society expectations about the company activities and purpose have changed in the past decades. We believe that modern companies have to put more emphasis on social responsibility agenda. There are many examples when

companies introduced the social responsibility practices in their core strategies and by doing that achieved success not only in social responsibility but also in profitability.

It is often heard in the media or from respected specialists that to change the situation or to improve something the solution is to change the business model. Moreover according to Yishay Spector (2011) new firms with new business models are threatening and replacing established companies and conventional ways of doing business. But what exactly is the business model?

Business Models

To have clear understanding it is necessary to identify common substances and features among various business model definitions. There is currently no general consensus on the meaning of the term 'Business Model' (Jansen et al., 2007). Besides the term Business Model is not yet fully defined and there is a well-documented debate on the business model definition. Business model is a term much used but seldom defined explicitly. A widely used definition says, "A business model describes the rationale of how an organization creates, delivers, and captures value (economic, social, or other forms of value)" (Kaplan 2012). Osterwalder defines a business model as 'the firm's logic for creating and commercializing value'. He continuously suggesting that Business model investigation creates a full understanding of a business (Osterwalder & Pigneur 2002). Furthermore Magretta (2002) argues that the strength of a business model is that it tells a story about the business by focusing attention on not only what the key pieces of the business are, but also how they fit together. Beyond the story-telling function, Osterwalder et al. (2005) argue that business models can potentially be analysed, compared, prospected, designed and patented. Generally speaking, business models define how the pieces of a business fit together (Magretta 2002)

The terms 'business model' and 'strategy' are often used as synonyms. As Stahler (2002) pointed out mistakenly these two terms are used for referring to everything that is believed to give the organization a competitive advantage. Another difference between strategy and business models is that strategy includes execution and implementation, while the business model is more about how a business works as a system. A practical distinction describes business models as a system that shows how the pieces of an organization fit together, while strategy also includes competition (Magretta 2002). By contrast, Seddon et al. (2004) distinguish between business model and strategy, defining the business model as an abstraction of a firm's strategy. Amitt & Zott (2001) believe that a business model can be related to the concept of value chains. Goethals suggests that companies can gain advantages from identifying and improving elements in their Business Model that are not sufficiently optimized or aligned.

In fact most authors focus on the value proposition or the revenue model. While these may be the most important and most easily identifiable aspects of some company's business model if financial aspects are compared however we believe that in modern world other elements are equally important and one of them is social responsibility.

Many authors have suggested that business model has the link with the value. So what is the value for the modern companies? This is the topic for the discussion.

Corporate Social Responsibility

First research the question is no longer “whether,” but “how” organizations can combine the principles of social responsibility with profit generation (Epstein and Roy, 2001; Smith, 2003). In this context, we wish to explore in this paper how organizations can integrate CSR in their business models.

The world is not static and all the processes in the environment whether it is business environment or any other are dynamic and developing very rapidly in the era of globalization and turbulence. (Rugman 2006) As there are no clear boundaries that divide one variable from another; corporate social responsibility,

Corporate social responsibility concept was first developed in the beginning of the 70s in the last century. Nevertheless different scholars and researchers are still arguing about the concept new tendencies have appeared and strategies have developed that shows that the concept of corporate social responsibility is still actual in nowadays and companies have to be aware of it.

Similarly to business models there are different definitions of the term, social responsibility, corporate social responsibility, corporate citizenship, corporate social performance, stakeholder management etc.

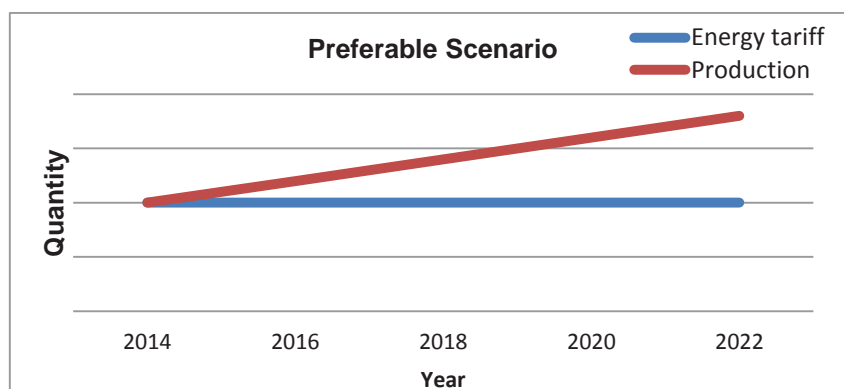
In this article we will focus on Corporate Social responsibility term two opposite views are presented. We start with The World Business Council for Sustainable Development defines CSR as: *The continuing commitment by business to behave ethically and contribute to the economic development while improving the quality of life of the workforce and their families as well as of the local community and society at large.*

In other words corporate social responsibility as part of new business model generates new and competitive resources for firms in addition a properly implemented corporate social responsibility concept can bring along a variety of competitive advantages, such as enhanced access to capital and markets, increased sales and profits, operational cost savings, improved productivity and quality, efficient human resource base, improved brand image and reputation, enhanced customer loyalty, better decision making and risk management processes.

As we continue with one of the most famous opponent to corporate social responsibility Friedman (1970) theory, well known view that ‘the only one responsibility of business towards society is the maximization of profits to the shareholders within the legal framework and the ethical custom of the country’. In addition Windsor (2001) have recently stated ‘a leitmotiv of wealth creation progressively dominates the managerial conception of responsibility’

Another very important issue is what are the evaluation criteria's? If we talk about the new business model there have to be measurements how to evaluate the business model and its value added to social responsibility. One of the options is to use Carroll (1991) ‘Pyramid of the levels of CSR’ which presents 4 levels of Corporate Social Responsibility. First level bottom of the pyramid is ‘companies which play by the rules of the game’ (Friedman’s CSR), second level is ‘outwards responsible companies (shallow CSR actions)’, third levels is ‘entrepreneurs for others (deeper CSR)’ and finally fourth level ‘the really responsible companies (blue marketing)’. What could be the other options and alternatives to evaluate the effectiveness and efficiency of companies performance according to social responsibility?

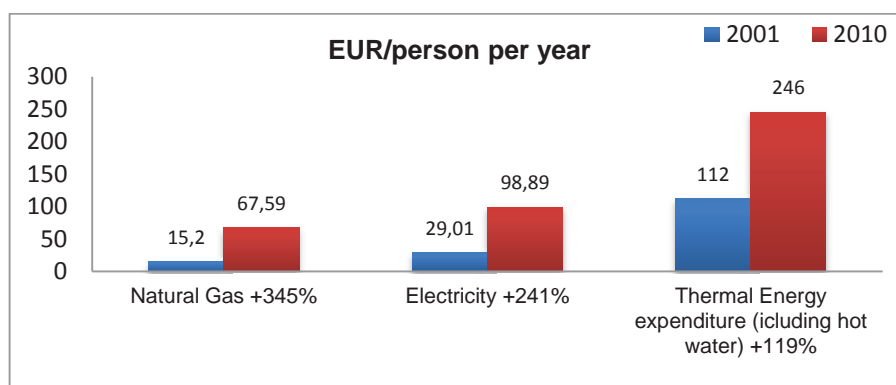
We think that the main impact on social agenda could be achieved by slowing down the increase for the energy tariffs as we talk about electricity, heating and natural gas prices. It will be particularly difficult to lower the current prices, so the good result will be to make the energy prices constant without rapid growth for the tariffs as it is shown in the graph 1. As we believe that competitive prices for energy could attract new businesses and stimulate the growth of SME that are so compulsory for Latvian economy.



Graph 1.

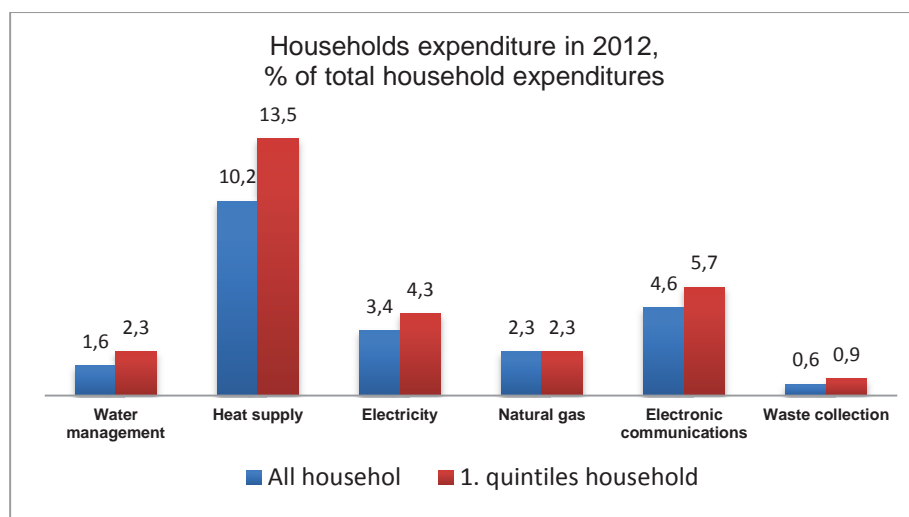
There are many discussions about the situation in the energy sector; there are talks that countries have to focus on renewable, green, independent energy, energy security that countries have to obtain sustainable strategies for effective and efficient development of energy industry. However all this changes come with the high price. There is new directive from Europe Union that claims that energy efficiency is an effective means to reduce dependence on energy imports, improve energy security, mitigate climate change and to overcome the economic crisis. In order to achieve the EU headline target for energy efficiency, Energy Efficiency Directive EED provides that all Member States in the period from 2014 to 2020 are required to achieve a cumulative end-use energy savings target. In Economic Ministry developed Concept the aim of Latvia for a cumulative end-user energy savings are 9,896 GWh or 9.9 TWh. In other words energy-efficiency is described as the goal to reduce the amount of energy required to provide products and services.

Many experts predict that energy prices will grow. According to LSUA estimates EED planned implementation measures will lead to an increase in thermal energy tariff ranging from 5% to 25% for end-user. It is dramatic increase in addition to for years unresolved debt issue: approximately 70 millions EURO is the debt for thermal energy in Latvia. Electricity prices are as well predicted to grow 5-10% in close future. The price for energy in the past decade has increased average by 235%, see the tendency in graph 2. With the increase in energy prices and in addition with existing debt many experts suggest that Latvia is heading to energy poverty. That means that status quo is not an option any more. Government with major energy companies have to take action and think about changing the existing business model.



Graph 2.
Source: Ernest & Young

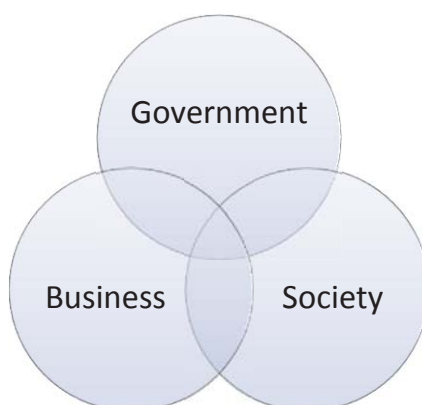
It is important not to forget that the EED measures must be economically justified however government with regulators has to consider social issues by focusing on energy availability for lower class users. Energy industry is vital for every country; on the macro level main agenda is energy independence, energy security, 'green energy', global partnership among producers and so on. However these are not the only tasks, energy availability and affordability are the emerging trends that government leaders have to deal with. Our everyday life at home, rest, work and production cannot be imagined without the use of energy. Organization of our life, national economy and welfare is largely dependent on decisions in the field of energy policy. Energy prices are very important for successful development. For organizations, energy costs are a factor to be reckoned with, especially for SMEs and households. Costs for heating and lighting make out a significant part of any household's budget. See the graph 3.



Graph 3.
Source: Sabiedrisko Pakalpojumu Regulēšanas Komisija

We believe that to make the difference it is important to have the participation of three major parts: first of all government, secondly business and thirdly the society.

In addition situation in Latvian energy sector is rather complicated. Despite the fact that Latvian electricity market is open for abroad companies there is still only one big player in the market and it is A/S Latvenergo. According to web-portal 'Enerģētika Latvijā', 92% of electricity capacity generated (in numbers 2022 MW) in Latvia is owned by A/S Latvenergo. From this capacity 60,12% consists of the 'Daugavas HES' cascade, 39,33% Rīgas thermo-electro station (TEC-1 and TEC-2), 0,47% Liepājas TEC and 0,08% Ainažu wind power station along with Aiviekstes hydroelectric power station. A/S Latvenergo produces almost 54% of the total amount of electricity consumed in Latvia. Lack of market liquidity, or too few players in a small market does not provide a favorable environment for competition, thus creating a monopoly risks that could potentially affect the security of supply and price volatility. According to newspaper 'Diena', 'Ir' and 'Dienas bizness' data A/S Latvenergo profit in comparison with last year has grown by 2% reaching 44,7 million lats. In addition district heating in Latvia has similar situation as with electricity as one company has the dominance in the market and it is JSC Rīgas Siltums. Heat produced in own heat production sources amounting to 1.036 mill MWh per year accounts for 30.3% of the total volume of heat delivered to the heat network.



Latvenergo is the key player in the Latvian market and furthermore company's success plays major role in Latvian budget. As the company is owned by the state, so large part of the profit goes is orders to state. To make the change it is important to move Government and Latvenego away from their comfort zone.

Being monopolist in the market Latvenergo is not interested in change as the present situation and the prospect of further increase in tariffs satisfies company's ambitions. We do not want to say that Latvenergo is working not effective not at all. Latvenergo is successful company in the system it is part of. However what we as the end-user expect is to be more socially oriented. In certain way to help the poor regions with lower tariffs for energy and by stimulating new

businesses development with attractive tariffs or some facilitation for new production companies.

Firstly Government is obliged to fulfill the regulations set by the EU. Secondly Government has to play regulator role. And finally government has to make conditions for economy and business positive development as well as increasing living standards for society. Unfortunately the experience shows that government is more focus on dealing with political questions and leaves the social issues aside.

Of course there are high expectations from society as well to change the paradigm of using the energy by choosing more efficient ways use energy and other energy saving activities that could lead to ecological and economical improvement. However it is difficult to see what are the advantages for energy end-users and it seems that with EU directives situation might get less optimistic in the period of time when Latvia will have to fulfill the directives. It seems that end-users will be the one who will be forced to pay for the change.

Centralization vs. Decentralization

There is debate about decentralization of energy providers in other words switching from large monopole company to other smaller companies. We agree that if there will be more companies it will improve the competition. By transforming energy owned energy stations to municipally ownership could change the situation as well. As it is believed that state ownership involves more political aspects nonetheless municipality has more focus on their region that creates competition between other municipalities. Every municipality will be interested to lower the price for energy and in that way stimulate new production and will bring investments.

To summarize there are still a lot of open questions that have to be carefully analysed before they could be answered. As article shows accurately integrated corporate social responsibility could generate many benefits for the company however to do that it requires change and flexibility from the company and the management team. So what are the reasons for change? What benefits companies are searching for? With what kind of pressure companies have to deal at the present and in the near future? At what stage of company life cycle the change is most effective? What is the external and internal influence that pushes company to integrate corporate social responsibility in their business model? What are the requirements for companies to be better prepared for the upcoming developments in energy sector? The situation in the business world is changing rapidly and companies have to be aware of changes and have to be ready and prepared to face the future uncertainty. As article have shown social responsibility can bring many benefits to the companies in addition by analysing business models company managers can better understand the company processes and evaluate process efficiency. By integrating the social responsibility in new business model companies can achieve synergy.

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